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April 14, 2016

Ms. Susan Gorospe, Senior Management Analyst
City of Santa Ana
60 Civic Center Plaza, M-25
Santa Ana, CA 92701

Dear Ms. Gorospe:

Subject: 2016-17 Annual Recognized Obligation Payment Schedule

Pursuant to Health and Safety Code (HSC) section 34177 (o) (1), the City of Santa Ana Successor Agency (Agency) submitted a Recognized Obligation Payment Schedule for the period July 1, 2016 through June 30, 2017 (ROPS 16-17) to the California Department of Finance (Finance) on January 28, 2016. Finance has completed its review of the ROPS 16-17.

Based on a sample of line items reviewed and application of the law, Finance made the following determinations:

- Item No. 21 – Housing Loan for Education Revenue Augmentation Fund Fiscal Year 2009-10 in the amount of \$116,500 is reclassified from Redevelopment Property Tax Trust Funds (RPTTF) to Other Funds. This item is an enforceable obligation and the Agency requested \$3,146,944, however, Finance is reclassifying \$116,500 from RPTTF to Other Funds. Finance determined the Agency has \$116,500 in Other Funds as explained under Item Nos. 31, 39, 63, and 120. Therefore, Finance is approving \$116,500 from Other Funds for this obligation and \$3,030,444 in RPTTF, totaling \$3,146,944.
- Item No. 31 – Erickson Lease Agreement project costs in the total outstanding obligation amount of \$58,700 is not allowed. The actual obligation does not exist at this time; allocating funds for unknown contingencies is not an allowable use of funds. Therefore, this item is not an enforceable obligation and the amount of \$50,000 is not eligible to be funded by Other Funds.
- Item No. 39 – BARCO Agreement project costs in the total outstanding amount of \$43,561 are not allowed. The Agency requested project management funding for a property that Finance approved in the Agency's Long-Range Property Management Plan to be transferred to the City of Santa Ana (City) for future development pursuant to HSC 34191.5 (c) (2). Therefore, this item is no longer an enforceable obligation and the amount of \$1,500 is not eligible to be funded by Other Funds.
- Item No. 43 – Downtown Parking Structure Improvements funded with 2011 Bond Proceeds is partially allowed. The Agency requests to expend \$302,000 derived from its 2011 Tax Allocation Bonds, Series A.

Pursuant to HSC section 34191.4 (c) (2), after receiving a Finding of Completion the Agency may expend proceeds derived from bonds issued on or after January 1, 2011 in a manner consistent with the original bond covenants. The Agency received a Finding of Completion on March 2, 2015.

However, HSC 34191.4 (c) (2) (A) limits the Agency's expenditure authority to five percent of the 2011 Bond Proceeds until the Agency has an approved Last and Final ROPS. As such, the Agency may only expend \$260,695 of proceeds derived from their 2011 Tax Allocation Bonds, Series A. Therefore, Item No. 43 is partially allowed in the amount of \$260,695. The Agency's remaining request in the amount of \$41,305 is not allowed at this time.

- Item No. 45 – South Main Public Improvements funded with \$1,252,140 in Bond Proceeds. The Agency received a Finding of Completion on March 2, 2015 and is allowed to expend bond proceeds derived from bonds issued prior to January 1, 2011 (pre-2011 bond proceeds) in a manner consistent with the bond covenants. The Agency intends to transfer pre-2011 bond proceeds to the City during ROPS 16-17. Before the transfer can take place, however, a bond expenditure agreement between the Agency and the City, outlining the transfer of pre-2011 bond proceeds, must be approved by the Oversight Board and submitted to Finance for review.
- Item No. 63 – Employee Pension Liability in the amount of \$70,000 is not allowed. While this item is an enforceable obligation, the Agency was unable to provide supporting documentation to support the amount requested. It is our understanding the requested amount is only an estimate based on prior period actuals for the employer's portion of the defined benefit pension plan. To the extent the Agency can provide sufficient documentation, such as the basis of the calculation showing the portion of the employee pension liability allocated to the redevelopment agency (RDA) employees, the Agency may be able to obtain funding on future ROPS. Therefore, the requested amount of \$35,000 funded by Other Funds and \$35,000 in RPTTF is not eligible for funding at this time.
- Item No. 119 – Employee Layoff/Termination Payment Obligations in the total outstanding amount of \$131,110 is not allowed. The Agency is requesting funding for employee layoffs, terminations, or retirements. However, it is our understanding the Agency is not currently obligated to pay these leave balances and has not provided any documentation to support the leave balances will be due and payable in the ROPS 16-17 period. Allocating funds for unknown contingencies is not an allowable use of funds. To the extent the Agency can provide sufficient documentation, such as the basis of the calculation showing the portion of the employee layoff/termination costs allocated to RDA employees, the Agency may be able to obtain funding on future ROPS. Therefore, the requested amount for ROPS 16-17 of \$69,852 is not eligible for RPTTF funding.
- Item No. 120 – Employee Obligations in the amount of \$60,000 is not allowed. While this item is an enforceable obligation, the Agency was unable to provide supporting documentation to support the amount requested. It is our understanding the requested amount requested is an estimate for health insurance as required through various collective bargaining agreements. To the extent the Agency can provide sufficient documentation, such as the basis of the calculation showing the portion of the employee health insurance obligation allocated to the RDA employees, the Agency may be able to

obtain funding on future ROPS. Therefore, the requested amount of \$30,000 funded by Other Funds and \$30,000 funded by RPTTF is not eligible for funding at this time.

- Item No. 129 – Housing Entity Administration Cost Allowance in the total outstanding amount of \$600,000 is not allowed. Finance continues to deny this item. Pursuant to HSC section 34171 (p), the housing successor administrative cost allowance is applicable only in cases where the city, county, or city and county that authorized the creation of the redevelopment agency elected to not assume the housing functions. The housing successor to the former RDA of the City is the City-formed Housing Authority and the Authority operates under the control of the City, the Authority is considered the City under Dissolution Law pursuant to HSC section 34167.10. Therefore, \$450,000 of housing successor administrative allowance is not eligible for RPTTF.
- Item Nos. 130 through 159 – Unfunded HSC section 33607.7 Pass-Through Payments in the total outstanding amount of \$4,989,859 are not allowed. Finance continues to deny these items. It is our understanding these items represent demands from the taxing entities for statutory pass-through payments triggered by the former RDA's Ordinance No. NS-2809 to eliminate the time limit for incurring indebtedness for two component project areas: Central City and Inter-City, retroactive to fiscal year 2004-05 through fiscal year 2010-11. However, during our initial review of these items on the ROPS 15-16B the Orange County Auditor-Controller (CAC) reviewed the demands, and expressed no opinion as to whether or not these statutory pass-through payments are owed to the taxing entities.

During this ROPS period, the Agency provided a demand letter signed by the Santa Ana Unified School District and Rancho Santiago Community College District to place these retroactive pass-through payments for reconsideration on the ROPS as required by the statutes. The current supplemental documentation provided by the Agency only provides acknowledgment that retroactive pass-through payments for fiscal years 2004-05 through 2010-11, required by HSC section 33607.7 upon debt limit elimination, are enforceable obligations.

In addition, the opinion provided from the Office of the Attorney General focused only on the interpretation of the three statutes HSC sections 33607.5 (c), 33607.5 (d), and 33607.7 (b) (2) in providing formulas to calculate a RDA's pass-through payments and to clarify the factors involved in these calculations. These are not sufficient to conclude that these items are enforceable obligations. Furthermore, the Agency was not named as a party to the Los Angeles Unified School District court decision nor has shown that the requested payments are binding or have received concurrence by the CAC. Therefore, these items are not enforceable obligations and are not eligible for RPTTF funding of \$4,989,859.

Except for the items denied in whole or in part or the items that have been adjusted, Finance is not objecting to the remaining items listed on your ROPS 16-17. If you disagree with Finance's determination with respect to any items on your ROPS 16-17, except for those items which are the subject of litigation disputing Finance's previous or related determinations, you may request a Meet and Confer within five business days of the date of this letter. The Meet and Confer process and guidelines are available at Finance's website below:

http://www.dof.ca.gov/redevelopment/meet_and_confer/

On the ROPS 16-17 form, the Agency reported cash balances and activity for the period of July 1, 2015 through June 30, 2016. Finance performs a review of the Agency's self-reported cash balances on an ongoing basis. Be prepared to submit financial records and bridging documents to support the cash balances reported upon request. If it is determined the Agency possesses cash balances that are available to pay approved enforceable obligations, HSC section 34177 (l) (1) (E) requires these balances to be used prior to requesting RPTTF.

The Agency's maximum approved RPTTF distribution for the reporting period is \$14,082,553 as summarized in the Approved RPTTF Distribution Table on Page 6 (See Attachment).

ROPS distributions will occur twice annually, one distribution for the July 1, 2016 through December 31, 2016 (ROPS A period), and one distribution for the January 1, 2017 through June 30, 2017 (ROPS B period) based on Finance's approved amounts. Since Finance's determination is for the entire ROPS 16-17 period, the Agency is authorized to receive up to the maximum approved RPTTF through the combined ROPS A and B period distributions.

On the ROPS 16-17 form, the Agency was not required to report the estimated obligations versus actual payments (prior period adjustment) associated with the July 1, 2015 through December 31, 2015 period (ROPS 15-16A). The Agency will report actual payments for ROPS 15-16A and ROPS 15-16B on the ROPS 18-19 form pursuant to HSC section 34186 (a) (1). A prior period adjustment will be applied to the Agency's future RPTTF distribution. Therefore, the Agency should retain any difference in unexpended RPTTF.

Please refer to the ROPS 16-17 schedule used to calculate the total RPTTF approved for distribution:

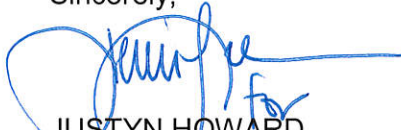
<http://www.dof.ca.gov/redevelopment/ROPS>

Absent a Meet and Confer, this is Finance's determination related to the enforceable obligations reported on your ROPS for the period July 1, 2016 through June 30, 2017. This determination only applies to items when funding was requested for the 12-month period. Finance's determination is effective for this time period only and should not be conclusively relied upon for future ROPS periods. All items listed on a future ROPS are subject to review and may be denied even if it was not denied on this ROPS or a preceding ROPS. The only exception is for items that have received a Final and Conclusive determination from Finance pursuant to HSC section 34177.5 (i). Finance's review of Final and Conclusive items is limited to confirming the scheduled payments as required by the obligation.

The amount available from the RPTTF is the same as the amount of property tax increment available prior to the enactment of the redevelopment dissolution statutes. Therefore, as a practical matter, the ability to fund the items on the ROPS with property tax is limited to the amount of funding available to the Agency in the RPTTF.

Please direct inquiries to Nichelle Thomas, Supervisor, or Medy Lamorena, Lead Analyst at (916) 445-1546.

Sincerely,



JUSTYN HOWARD
Program Budget Manager

cc: Mr. Francisco Gutierrez, Executive Director of Finance & Management Services Agency,
City of Santa Ana
Mr. Frank Davies, Property Tax Manager, Orange County

Attachment

Approved RPTTF Distribution For the period of July 2016 through June 2017			
	ROPS A Period	ROPS B Period	Total
Requested RPTTF (excluding administrative obligations)	\$ 16,547,823	\$ 2,975,941	\$ 19,523,764
Requested Administrative RPTTF	125,000	125,000	\$ 250,000
Total RPTTF requested for obligations on ROPS 16-17	\$ 16,672,823	\$ 3,100,941	\$ 19,773,764
Total RPTTF requested	16,547,823	2,975,941	19,523,764
<u>Denied Items</u>			
Item No. 63	0	(35,000)	(35,000)
Item No. 119	0	(69,852)	(69,852)
Item No. 120	0	(30,000)	(30,000)
Item No. 129	(450,000)	0	(450,000)
Item No. 130	(709,386)	0	(709,386)
Item No. 131	(246,518)	0	(246,518)
Item No. 132	(79,117)	0	(79,117)
Item No. 133	(61,154)	0	(61,154)
Item No. 134	(103,604)	0	(103,604)
Item No. 135	(11,700)	0	(11,700)
Item No. 136	(1,989)	0	(1,989)
Item No. 137	(4,469)	0	(4,469)
Item No. 138	(436)	0	(436)
Item No. 139	(11,228)	0	(11,228)
Item No. 140	(28,998)	0	(28,998)
Item No. 141	(1,718,479)	0	(1,718,479)
Item No. 142	(255,553)	0	(255,553)
Item No. 143	(420,026)	0	(420,026)
Item No. 144	(108,668)	0	(108,668)
Item No. 145	(16,386)	0	(16,386)
Item No. 146	(235,995)	0	(235,995)
Item No. 147	(82,024)	0	(82,024)
Item No. 148	(26,321)	0	(26,321)
Item No. 149	(20,345)	0	(20,345)
Item No. 150	(662)	0	(662)
Item No. 151	(1,487)	0	(1,487)
Item No. 152	(161)	0	(161)
Item No. 153	(3,736)	0	(3,736)
Item No. 154	(556,237)	0	(556,237)
Item No. 155	(106,123)	0	(106,123)
Item No. 156	(122,316)	0	(122,316)
Item No. 157	(15,448)	0	(15,448)
Item No. 158	(35,858)	0	(35,858)
Item No. 159	(5,435)	0	(5,435)
	(5,439,859)	(134,852)	(5,574,711)
<u>Reclassified Items</u>			
Item No. 21	(116,500)	0	(116,500)
Total RPTTF authorized	10,991,464	2,841,089	\$ 13,832,553
Total Administrative RPTTF authorized	125,000	125,000	\$ 250,000
Total RPTTF approved for distribution	11,116,464	2,966,089	\$ 14,082,553